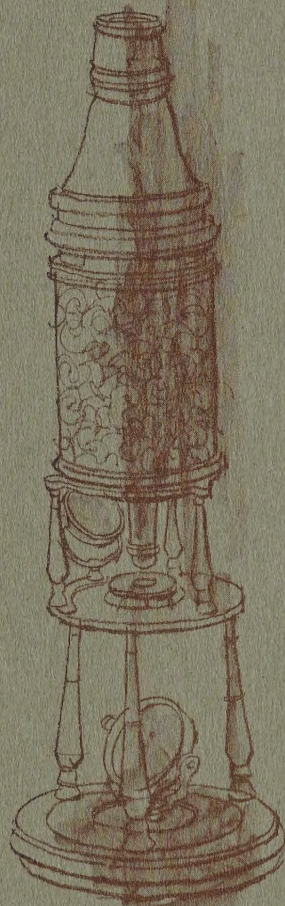


AR51

Lee

1967

THE 121st ANNUAL REPORT  
THE CANADA LIFE ASSURANCE COMPANY







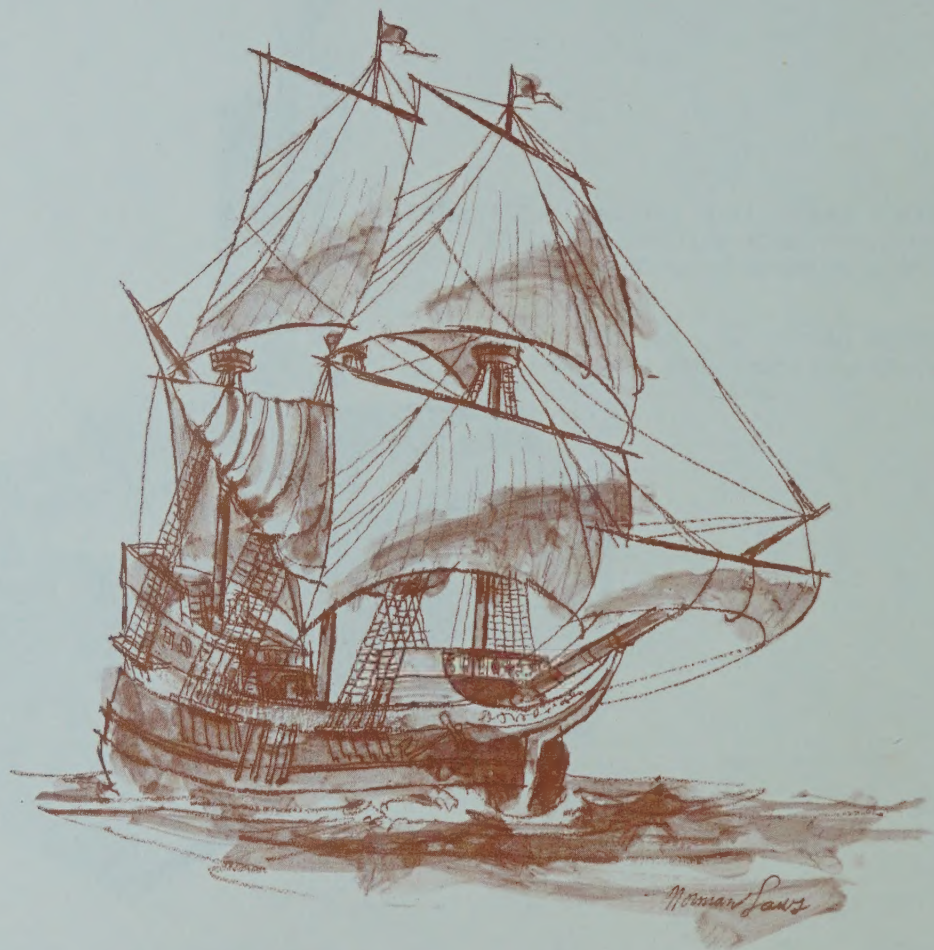
**THE CANADA LIFE ASSURANCE COMPANY  
ONE HUNDRED AND TWENTY-FIRST  
ANNUAL REPORT — 1967**

**HEAD OFFICE • TORONTO, CANADA  
CANADA'S FIRST LIFE COMPANY**



*Cover —  
An antique microscope*

*One of the world's most powerful electron microscopes — a  
Centennial donation by Canada Life to aid medical research*

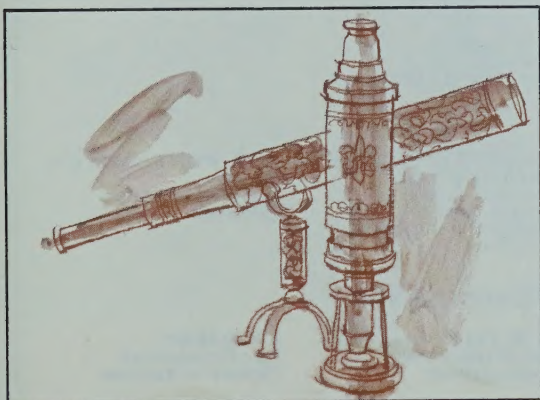


*Since the dawn of his history, man has been an explorer. While formerly he had new continents to discover, now he probes the outer space that he has studied by eye for millennia and by telescope for less than four centuries.\**

*Another form of exploration has been pursued for almost four hundred years and the frontiers are just now being touched — the study of the microcosmos of matter.*

*Beautifully embellished microscopes in the early days helped mankind discover the invisible world surrounding us. The light microscope reached its peak of perfection in about three centuries. In contrast, the electron microscope has been developed in less than three decades.*

*The brief pictorial story, running as a theme through this Annual Report, traces the development of man's ability to explore the minute world.*



*\*Mortality tables, the scientific basis of life insurance calculations, were first drawn up by Edmund Halley, who in 1682 observed the comet that bears his name and later predicted its return.*

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## MANAGEMENT VICE-PRESIDENTS

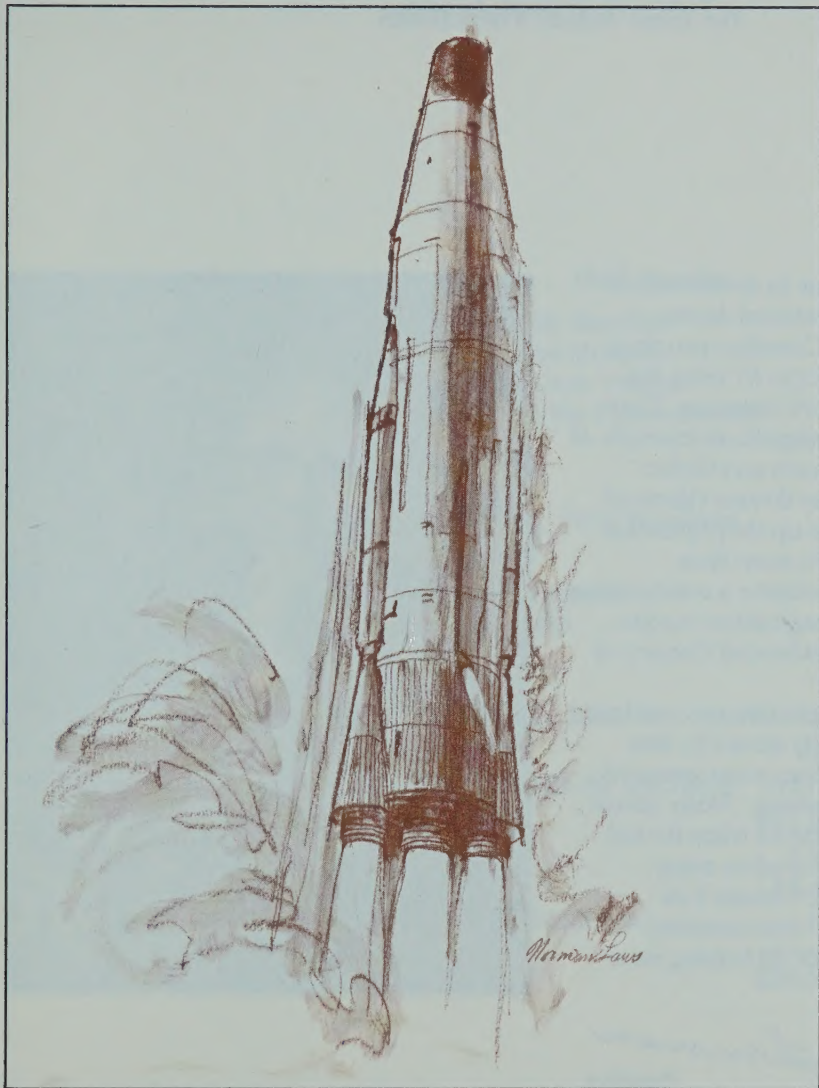
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*Vice-President  
and Secretary*

E. H. CRAWFORD  
*Vice-President  
and Treasurer*

D. M. ELLIS, F.S.A., F.C.I.A.  
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Senior Actuary*

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*Vice-President and  
Director of Agencies*



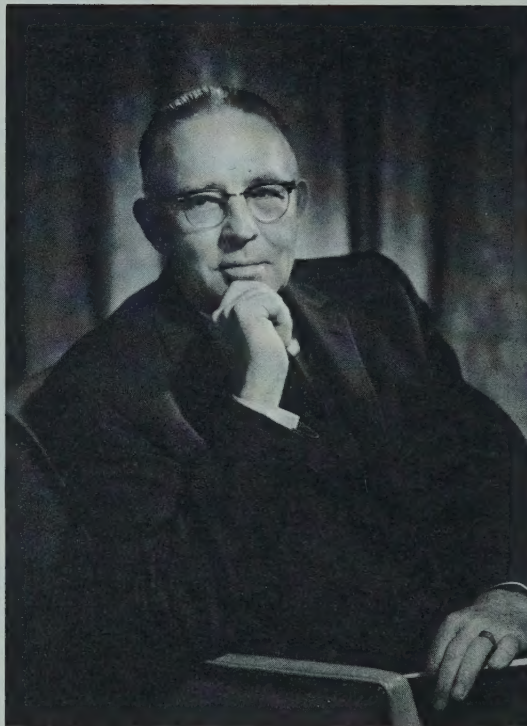


*In this age of rocketry and space exploration, a business must have vital, dynamic direction to continue to soar. While Canada Life is Canada's first life company, and one of the oldest in America, it is directed by business leaders who are attuned to the needs of today and tomorrow.*

## TO OUR POLICYHOLDERS

The year 1967 was unique in the true sense of the word. A spirit of national destiny was re-awakened in the Canadian people as they saw the miracle of Expo 67 bring the nations of the world to their doorstep. That great Exposition was a magnificent example of the blending of Anglo-Saxon and Gallic planning and flair with the diverse talents of the many races that make up the population of our vast country. At the same time problems arose that will require a combination of good judgment and imagination to solve as Canada moves into the Second Century of Confederation.

During the past year governments continued to push into areas formerly served by free enterprise and inflation once more menaced the economies of most nations. Many people were confused and bewildered when the old virtue of thrift was questioned on many sides. In this atmosphere Canada Life continued expanding and demonstrated another fine year of service by helping more and more people.



*A. H. Lemmon*

President



# HIGHLIGHTS OF 1967

## 1967 Benefits

Death and Disability Benefits .....	\$ 41 million
Annuity and Pension Benefits .....	13 million
Endowments and Cash Values .....	38 million
Increase in Reserve for Future Benefits ....	47 million
<hr/>	
Total Benefits	\$139 million

## 1967 Premiums

Gross Premiums .....	\$141 million
Less Premium Reductions (Policy Dividends) .....	20 million
<hr/>	
Net Premiums	\$121 million

	in millions	
NET NEW PREMIUM INCOME	1967	1966
Individual Life .....	\$13.5	\$12.7
Group Life .....	1.1	1.6
Annuities .....	14.4	12.0
Health Insurance Increases .....	.6	1.8
<hr/>		<hr/>
Total	\$29.6	\$28.1

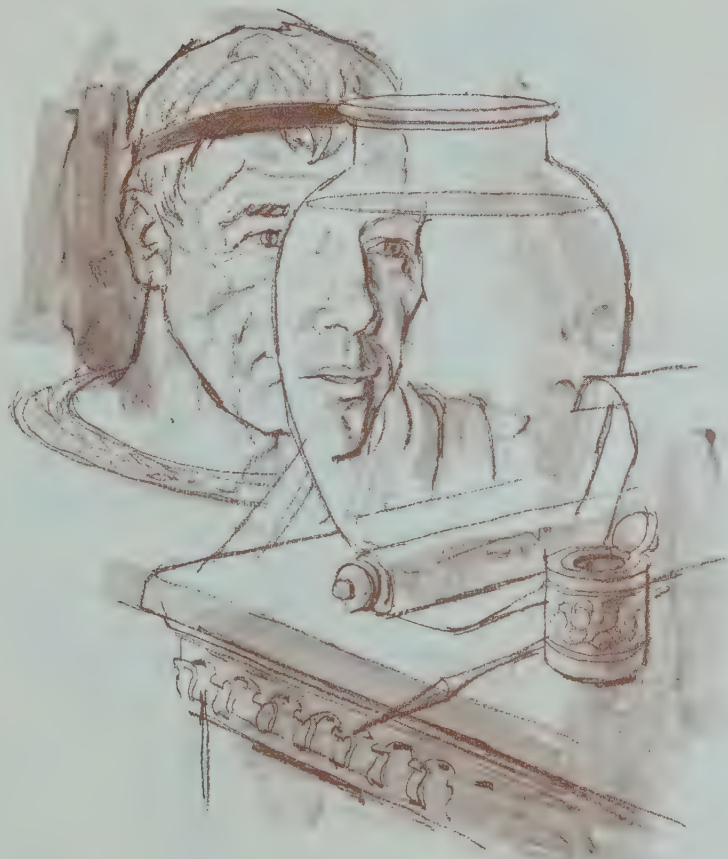
## TAXATION AIMED AT POLICYHOLDERS

The Report of the Royal Commission on Taxation, commonly known as the Carter Report, which was released in February, 1967, recommends that Canadian policyholders and beneficiaries should be taxed in four different ways in connection with their life insurance policies. It suggests:

- (1) that life insurance death benefits should be taxed as if they were capital gains
- (2) that a portion of the interest income of the Company should be imputed to each policyholder and that he should pay a tax on that
- (3) that a portion of the surplus earnings of the Company should be imputed to each participating policyholder and that he should pay a tax on that, as well as receiving a corresponding credit for any corporate tax which the Company paid on that amount
- (4) that he should pay a tax on policy dividends with which he was credited.

The tax on life insurance proceeds payable by a policyholder's estate would defeat the primary objective of life insurance and impose a very untimely burden on a policyholder's widow and dependants. The taxes on imputed amounts which the policyholder could not receive in cash, and indeed in most cases has no claim to, would also require policyholders to pay tax at a time when they had no corresponding income out of which to pay it.

The life insurance companies in Canada have made every effort since the Report was released to protect the interests of Canadian policyholders — and there are eleven million of them, almost half of which do not have enough income to attract income tax — by pointing out to the Government and illustrating in detail the inequities which would result from the adoption of these tax proposals.



*By 400 B.C. the Greeks were using a burning lens to light fires, but apparently they had not employed it for magnification.*

*In the first century A.D., a Roman philosopher observed that he could read small letters more easily through a glass jar filled with water.*



In determining the progress of a company we have to talk in terms of dollars and cents. While this gives an idea of size, it does not even begin to hint at the multitude of human interest stories that make up these amounts. For, at Canada Life, we deal with the means to improve and enrich the lives of thousands and thousands of people.

We are the means whereby an older person finds more than just a basic existence on government security plans. Through our services and through his own enterprise he finds a chance to travel and generally to enjoy his retirement years to the full. We are the means whereby a family, whose father has been killed in an accident, can continue to live in its own home without financial fear. We are the means whereby a father who is very ill can be sure that there will be money coming in to maintain the family and keep the mortgage payments up-to-date. We are the means whereby some young person can afford a university education that will give him

the background to make someday a great contribution to mankind. And we are also the means of reminding people of their needs and providing an exact picture of how their present resources measure up to their requirements. This valuable service is provided by a skilled and professional field organization.

In 1967, these dedicated members of Canada Life helped people attain a greater measure of financial security with over \$802 million of new life insurance and annuities.

## New business placed by Agency organization (Excluding reinsurance received)

	in millions	
	1967	1966
<b>Individual</b> .....	<b>\$458.9</b>	<b>\$452.6</b>
<b>Group</b> .....	<b>344.0</b>	<b>329.5</b>
<b>Total</b> .....	<b>\$802.9</b>	<b>\$782.1</b>
Insurance and annuities combined		



*Building on their knowledge of ancient Greek texts, scholars in the Near East during the eleventh century invented the first convex lenses.*

## BUSINESS IN FORCE

At the end of November, 1967, sterling was devalued from \$2.80 in U.S. funds to \$2.40. Up to this point we have carried sterling in our statement at \$2.80 but, in view of this change, we decided to reduce its value to \$2.60, which at the end of 1967 was its approximate value in Canadian dollars, in our balance sheet and for all year-end figures, including business in force. Since the greater part of the year had elapsed before the change we have not altered the figures in new business or revenue for the year. Reference to this change is made in a footnote to the balance sheet.

In spite of this change, business in force increased to a total of more than \$7.9 billion, including \$6.9 billion life insurance and \$992 million annuities. This total excludes business that we reinsured with other

companies, and represents an increase of \$572 million over the preceding year. The growth of business in force over the past years is shown in this chart.

### Life insurance and annuities in force

(Excluding reinsurance ceded)

**1957** \$3 BILLION, 119 MILLION

**1959** \$4 BILLION, 37 MILLION

**1962** \$5 BILLION, 263 MILLION

**1965** \$6 BILLION, 784 MILLION

**1966** \$7 BILLION, 356 MILLION

**1967** \$7 BILLION, 928 MILLION\*

\*Life insurance — \$6 billion, 936 million  
Annuities — \$992 million





*By the end of the  
thirteenth century  
“newly-invented”  
spectacles were  
helping people to  
read.*

## INCOME AND INVESTMENT EARNINGS

This year we have made a slight change in the form of our revenue statement. The Royal Commission on Taxation has proposed that policyholders should be taxed on the “policy dividends” that are credited to them on participating life insurance policies. This recommendation apparently was based on the assumption that a policy dividend is similar to a dividend paid to a shareholder from the profits of a corporation.

A policy dividend is quite different — it is a method of determining the fair premium for each policyholder from year to year.

Life insurance guarantees extend over long periods of time and premium rates must be based on assumptions of the trend of mortality, expense and interest rates for many years ahead. In mutual insurance, the premium stated in the policy is for an amount somewhat higher than it is anticipated will be necessary in the future. The actual premium required to be paid each year will vary with actual experience.

The difference between the premium stated in the policy and the actual premium paid in any year has been historically called a “dividend” — a word that has led to a misunderstanding of the true nature of these premium reductions.

This mutual method has provided great security to policyholders against the hazards of making guarantees extending over a whole lifetime. It should not be discouraged by an unrealistic tax on the part of the total premium which is not required to be paid each year.

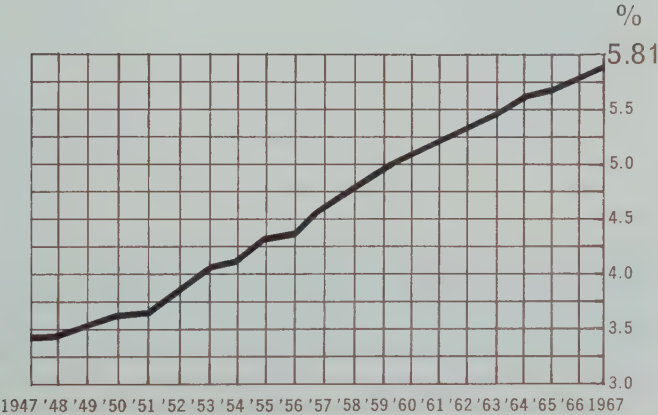
In an attempt to make our annual statement more descriptive in this matter we have this year used the words “premium reductions” instead of “dividends”, and their total is shown as a deduction from gross premiums instead of including it with payments to policyholders, as in previous statements.

With this adjustment, our total income for the year was \$183,939,000 — an increase of \$10,892,000 over 1966, calculated on the same basis.

The chart shows the net rate of interest earned on our assets from 1947 to 1967. In 1967 the net rate earned was 5.81%. This rate is a composite one representing rates earned on investments made in the past when rates were substantially lower; rates earned

on assets invested at substantially higher rates than our average net rate; and a good percentage of investments where the immediate return is low but there is a good expectation of future income and capital growth.

**Net rate of interest earned  
1947-1967**





## BENEFIT PAYMENTS

Total death and disability benefit payments reached \$40.7 million — an increase of over \$4 million from last year. Endowments and cash values disbursed were slightly less than in 1966 due to lower cash-out of existing pension plans arising out of the introduction of the Canada Pension Plan and the Quebec Pension Plan.

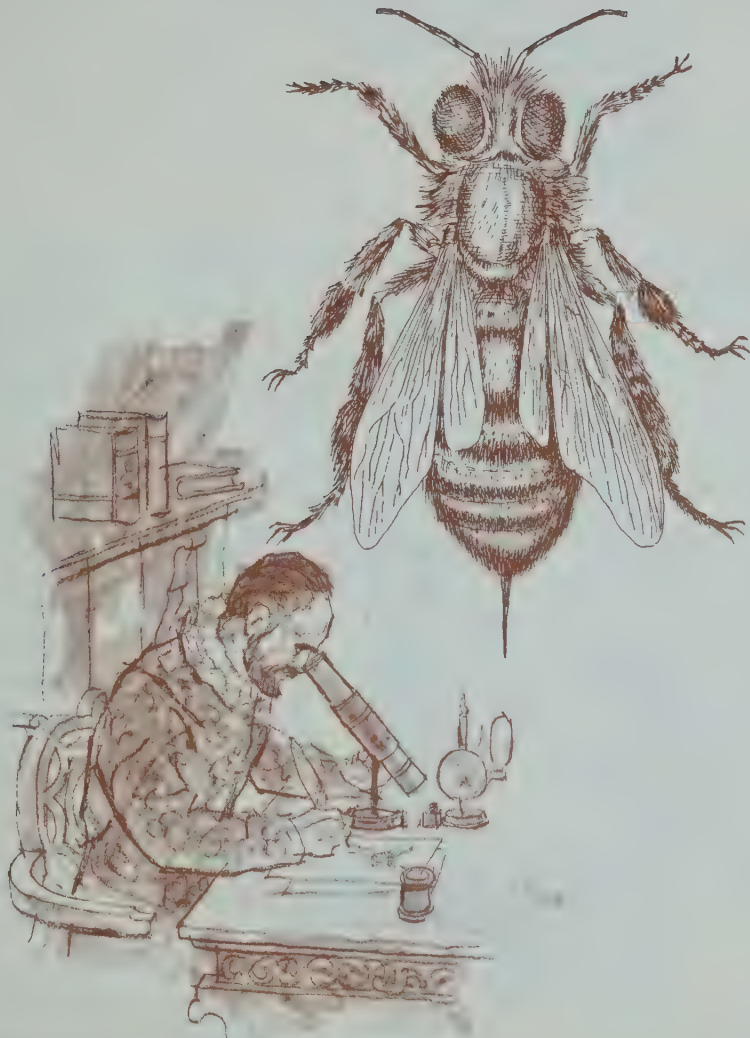
### Payments under policy contracts

	in millions	
	1967	1966
<b>Death and Disability Benefits .....</b>	<b>\$40.7</b>	<b>\$36.4</b>
<b>Endowments and Cash Values .....</b>	<b>38.0</b>	<b>39.2</b>
<b>Annuities .....</b>	<b>13.0</b>	<b>11.9</b>
<b>Total .....</b>	<b>\$91.7</b>	<b>\$87.5</b>

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Every holder of a Canada Life participating policy under which no premiums are due and unpaid is entitled to attend General Meetings of the Company and to vote in person or by proxy. Forms for naming a proxy may be obtained by writing to the Head Office in Toronto. The person named as proxy must himself be a policyholder entitled to vote at meetings of the Company, and to be valid proxy forms must be filed with the Secretary at the Head Office at least ten days before a meeting at which the proxy is to be used. A policyholder may revoke his proxy at any time. The Annual Meeting of the Canada Life is held at the Head Office of the Company on the last Thursday of January in each year.

You may receive more than one copy of this report if there are additional policies in force on members of your household. The cost of sorting out all duplications would far exceed material and postage costs.



*Late in the sixteenth century observations were made with a simple, single lens microscope.*

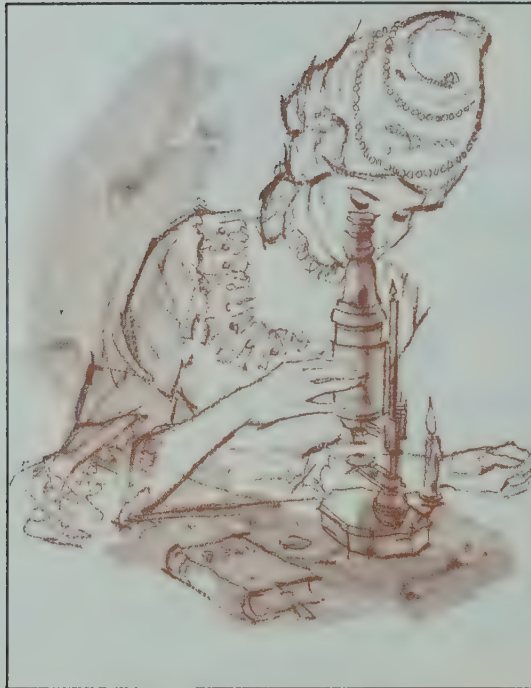
*In a few years, compound microscopes with two or more lenses were invented. One of the first objects observed and drawn was a bee.*

*Scholars and amateurs became fascinated by microscopes and eagerly explored the minute world.*

## CANADA LIFE OFFICES

**are in these locations in Canada,  
the United States,  
the United Kingdom  
and the Republic of Ireland,  
with district offices  
in many other cities**

*Microscopes were promoted like TV and stereo tape recorders today. Often they were mere toys for the aristocracy, but serious scholars used the instruments to study circulation of the blood and other important scientific subjects.*



### CANADA

Vancouver

Victoria

Edmonton

Calgary

Lethbridge

Saskatoon

Regina

Winnipeg

Fort William

Sudbury

Sault Ste. Marie

Windsor

Kitchener

London

St. Catharines

Hamilton

Barrie

Peterborough

Ottawa



Brockville	<b>UNITED STATES</b>	Detroit	<b>UNITED KINGDOM AND THE REPUBLIC OF IRELAND</b>	<b>MORTGAGE OFFICES</b>
Kingston	Honolulu	Grand Rapids		
Belleville	Seattle	Lansing	Athlone	Vancouver
Toronto	Portland	Cleveland	Belfast	Edmonton
Montreal	Fresno	Columbus	Birmingham	Calgary
St. Laurent	San Jose	Dayton	Bristol	Winnipeg
St. Lambert	Sacramento	Washington	Cardiff	
Sherbrooke	San Diego	New York	Cork	London
Rouyn	San Francisco	Mineola	Croydon	Hamilton
Trois-Rivières	San Mateo	Elmhurst	Dublin	
Rimouski	Palo Alto	Spring Valley	Edinburgh	Toronto
Quebec City	Pasadena	Queen's Village	Glasgow	Ottawa
Chicoutimi	Sherman Oaks	Bay Shore	Halifax	Montreal
Saint John, N.B.	Los Angeles	Newark	Hull	Halifax
Moncton	Denver	Union	Leeds	
Fredericton	Salt Lake City	Syracuse	Liverpool	London, England
Sydney	Minneapolis	Rochester	London	
Halifax	St. Paul	Buffalo	Manchester	<i>Mortgage</i>
Charlottetown	Chicago	Houston	Newcastle	<i>Correspondents in</i>
St. John's, Nfld.	St. Louis	Memphis	Nottingham	<i>many States</i>
	Pittsburgh	Miami	Plymouth	
	Philadelphia	Atlanta	Southampton	
		Jackson, Miss.		

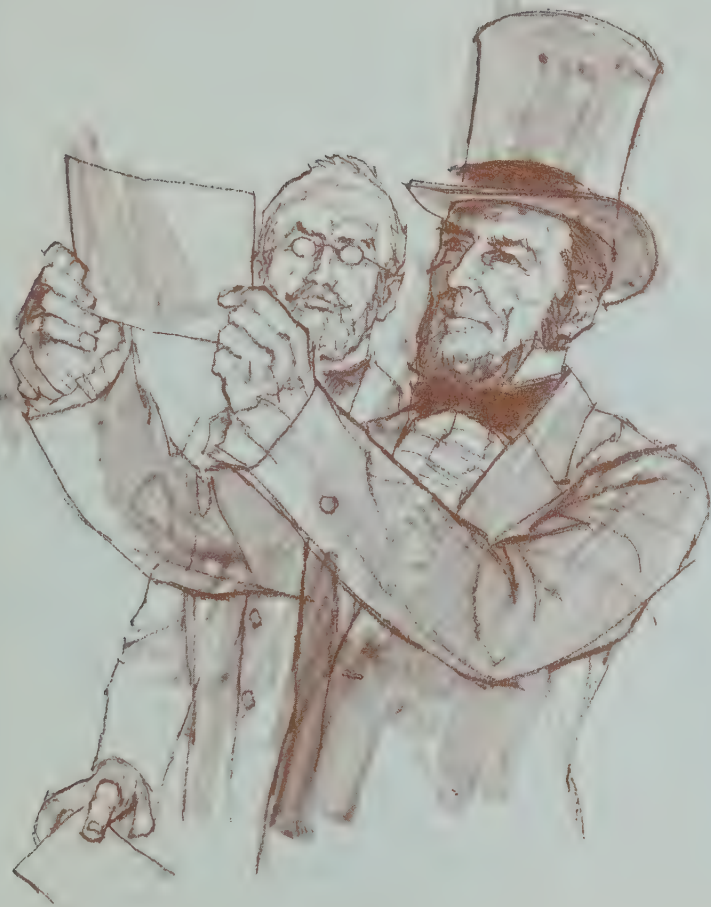
## MORTALITY EXPERIENCE

The overall mortality experience of the Company has been favourable again in 1967 in spite of the continuing uptrend in deaths from diseases of the heart and the circulatory system. Once again heart disease is by far the greatest cause of death among policyholders. We can draw some encouragement from the recent developments in heart transplants, but must recognize that these procedures can have little effect on the longevity of the general public for many years at least.

Greater attention to the hazards of smoke and smog could have rapid and beneficial results. Industries should continue to seek means of reducing their contribution to air pollution, and manufacturers of vehicles, and transportation companies, must build in

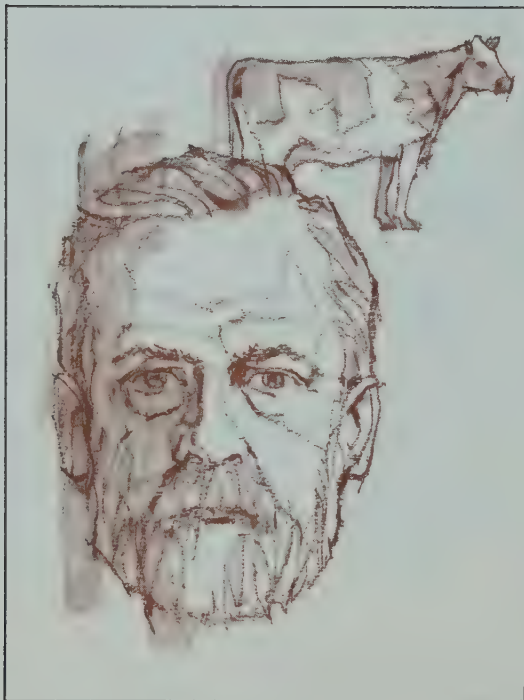
devices to decrease the discharge of poisonous gases. Governments should be more concerned with public welfare in spite of the large tax revenue produced by cigarettes, and the tobacco companies should press on with their research to reduce the harmful effects that are related to their products.

Some communities have used stringent means to check up on drinking drivers. The results in many cases have reduced the number of accidents and fatalities. Many people seem unable to exercise self-control. Until they do, enlightened law enforcement seems to be the most effective way of cutting down on traffic accidents which have been a major cause of death among our policyholders; in fact, the greatest cause among those under forty years of age.



*In 1845, just two years before Canada Life was established, the first photomicrographs were taken — an important step in research. Now scientists did not have to depend on drawings or verbal descriptions.*

## LIABILITIES AND SURPLUS



Once more, favourable mortality experience and investment earnings have produced a very satisfactory level of earnings for the Company in 1967. In addition to valuing both our assets and liabilities on a very conservative basis, we have been able to add \$5,641,000 to unassigned surplus and the general contingency reserve. They now total 6.8% of the Company's assets. We have also made provision for lower participating premiums for 1968 in Canada by an increase in the rate of premium reductions, which is the seventh successive yearly increase in this Country.

*Pasteurization of milk was developed as a result of studies with a microscope by Louis Pasteur in the nineteenth century.*



## ASSETS

At the end of 1967 our assets totalled \$1,127,832,000—an increase of \$51,750,000 during the year. We revalued our sterling assets to more closely reflect their value in Canadian dollars and these are now shown at \$2.60 to the pound. As the footnote to the balance sheet shows, this had the effect of reducing both our assets and liabilities by approximately \$10,400,000 but did not have any significant effect on surplus. During the year the Company continued its investment policy of investing in bonds, mortgages and common stocks, and placed increasing emphasis on real estate and mortgage investments where the Company obtains some participation in the future earnings of projects. With current inflationary trends we are fully aware of the need to protect the real value of our assets and our investment policy is formulated with this in mind. The

present high level of interest rates contain, in themselves, however, a substantial degree of inflation protection. For example, at a compound rate of 8% money doubles itself within nine years. Similar performances are frequently not obtained by many so-called “inflation hedge” investments.

It is natural that many people should complain about the present high level of interest rates. We have every sympathy for them. The income required to qualify for a house mortgage is now much larger than it has been in the past. Not only have interest rates and property taxes increased but the cost of a house has advanced rapidly in recent years. Higher interest rates are, of course, the product of inflation. Reduce the inflationary trends in the economy and interest rates will tend to adjust accordingly.

## ASSETS

A feature during the year was the rapid growth of our segregated annuity funds in Canada. These funds are used to offer plans to individual and group policyholders where results are based upon the investment experience of a particular group of assets. These funds increased substantially during the year and now stand at \$20,364,000.

### Diversification of invested assets

	%
Government Bonds .....	11.8
Municipal Bonds .....	5.2
Public Utility Bonds .....	3.6
Other Corporation Bonds .....	17.7
Preferred and Common Stocks .....	8.5
Mortgage Loans .....	41.6
Properties Held for Investment .....	3.1
Policy Loans .....	7.4
Miscellaneous .....	1.1
(Office Premises, Cash etc.)	100.0



*North America's first practical electron microscope was developed at The University of Toronto by post-graduate students James Hillier and Albert Prebus, with the guidance and encouragement of the late Professor Eli Franklin Burton, head of the Department of Physics.*

*This, the first compound electron microscope\*, was completed by 1939 and was the forerunner of the first commercially-produced instrument.*

*The electron microscope already is responsible for helping medical research attain notable victories in the continuing combat against disease.*

*\*It will be shown at The Centennial Centre of Science and Technology in Metropolitan Toronto.*

## ELECTRON MICROSCOPE PRESENTED

One of the world's most powerful electron microscopes has been installed at Canada's leading cancer research centre, The Princess Margaret Hospital in Toronto.

There it will help pathologists and other scientists make a continuing contribution to the international war against cancer, arthritis, muscle degeneration, and diseases of the kidney, liver and skin.

This electron microscope, the Philips EM 300, is a centennial gift to medical research from The Canada Life Assurance Company.

About eight feet high and weighing more than a ton and a half, the electron microscope will be a valuable aid in the medical research program that co-ordinates this activity at The Princess Margaret Hospital with research in The Wellesley Hospital, under the direction of the University of Toronto Faculty of Medicine.

This program is closely tied in with research across Canada, the United States and abroad.

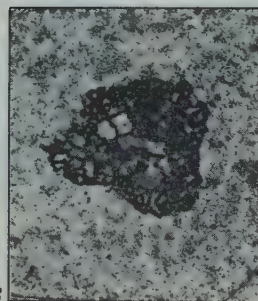
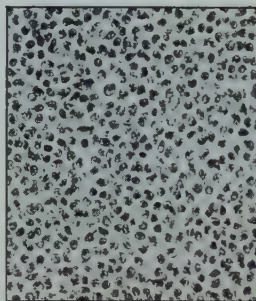
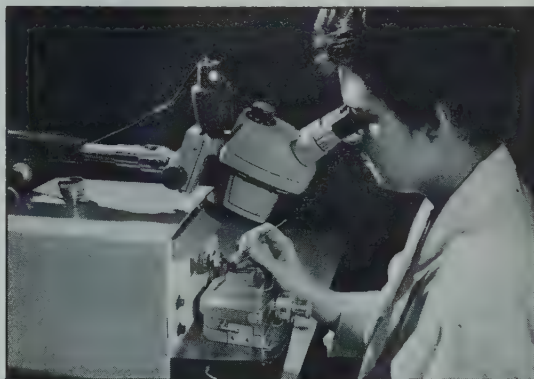
Pathologists had reached the end of the road with conventional light microscopes. With the electron microscope, however, they are able to see to the very heart of living matter and discover the minute changes in the inner cell structure — changes that lead to disease.

*The electron microscope is so powerful that only a very thin piece of tissue is required for study.*

*A thin sliver of tissue is imbedded in a small roll of plastic. Then an instrument known as*

*an ultra-microtome cuts off a minute slice that can be as thin as only one-millionth of an inch.*

*This almost invisible sandwich of plastic and tissue is then put into the electron microscope for viewing.*





## HOW THE ELECTRON MICROSCOPE WORKS

Electron microscopy uses new principles of magnification. Instead of beaming rays of light through the specimen, as with light microscopes, the electron microscope employs beams of electrons.

These are emitted by an electron gun, based on a principle similar to the electron gun in a TV tube. The electronic beams are focussed by magnetic lenses just as light beams are focussed in an optical microscope.

The operator, sitting at the desk-type console of the EM 300, is able to magnify an image up to 500,000 times in the central oval viewing window. This can be seen by other observers. Two side windows can also be used by observers behind the microscope desk, without disturbing the operator.

Photographs can be taken with automatic-exposure, built-in, 35mm, 70mm and plate cameras.

*With the EM 300 electron microscope it is possible to resolve detail in specimens only three angstrom units across (approximately a hundred millionth of an inch).*

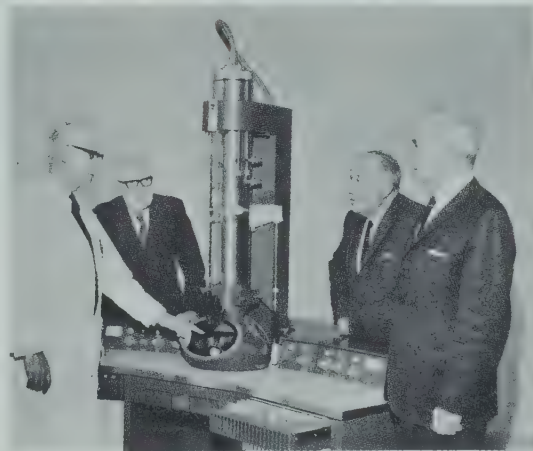
*The layman can readily see the difference between lymph node*

*cells, seen in a light microscope, magnified 500 times (A), with these cells magnified 35,000 times in an electron microscope (B).*

*The original pictures, of course, are infinitely clearer than it is possible to show in this small size.*

*The EM 300 Electron Microscope was presented at an informal ceremony at The Princess Margaret Hospital. Here Dr. T. C. Brown, Pathologist-in-Chief, describes some features of the instrument to: Senator M.*

*Wallace McCutcheon, Chairman of the Board, The Princess Margaret Hospital; W. J. Adams, Vice-President and Secretary, Canada Life and Dr. A. E. Parks, Medical Director, Canada Life.*



Dr. T. C. Brown, Chief Pathologist at The Princess Margaret Hospital and The Wellesley Hospital, describes electron microscopes as “the most significant technical advance of the century in the investigation of the fine structure of tissue cells in health and disease”.

# FINANCIAL POSITION AT DECEMBER 31, 1967

Assets	<u>1967</u>	<u>1966</u>
Bonds:		
Government . . . . .	\$128,263,000	
Municipal . . . . .	56,819,000	
Public utility . . . . .	37,247,000	
Other corporation . . . . .	<u>190,496,000</u>	
	\$412,825,000	\$ 404,686,000
Mortgage loans . . . . .	454,579,000	442,372,000
Stocks:		
Preferred . . . . .	\$ 18,665,000	
Banks and trust companies . . . . .	12,844,000	
Other common . . . . .	<u>57,220,000</u>	
	88,729,000	78,899,000
Properties held for investment . . . . .	34,098,000	32,885,000
Loans on policies . . . . .	82,541,000	75,412,000
Office premises . . . . .	6,446,000	6,087,000
Cash . . . . .	4,867,000	1,685,000
Premiums in course of collection . . . . .	7,778,000	8,276,000
Interest and rents accrued, including \$713,000 due in 1967 (\$368,000 in 1966) . . . . .	11,205,000	10,886,000
Other assets . . . . .	4,400,000	4,028,000
	<u>\$1,107,468,000</u>	<u>\$1,065,216,000</u>
Segregated annuity funds . . . . .	20,364,000	10,866,000
	<u>\$1,127,832,000</u>	<u>\$1,076,082,000</u>

The values at which the bonds and stocks are shown are amortized cost or less, except for assets held for variable contracts which are valued at market. The valuations of these securities prescribed by the insurance law of Canada, in total, are greater than the book values converted at corresponding rates of exchange.

At December 31, 1967 assets included above held in trust in the United States for the protection of United States policyholders totalled more than \$211,000,000 which exceeded the net liabilities to United States policyholders at that date.

## Liabilities and Surplus

	<u>1967</u>	<u>1966</u>
Amount required, in addition to future premiums and interest, to provide for payments guaranteed under insurance and annuity contracts . . . . .	\$ 913,686,000*	\$ 875,519,000
Benefits in course of payment and provision for unreported claims . . . . .	14,777,000	13,732,000
Amounts left on deposit with the Company . . . . .	60,501,000	56,739,000
Premium reductions (policy dividends) to be allowed in 1968 and subsequent years . . . . .	26,407,000	25,223,000
Short-term borrowings (to take advantage of investment opportunities) . . . . .	—	5,580,000
Miscellaneous liabilities (including amounts in suspense and provision for accrued taxes and outstanding expenses) . . . . .	13,857,000	17,032,000
Health insurance contingency reserve . . . . .	1,208,000*	—
General contingency reserve . . . . .	22,500,000	21,000,000
Unassigned surplus . . . . .	54,532,000	50,391,000
	<u>\$1,107,468,000</u>	<u>\$1,065,216,000</u>
Segregated annuity funds . . . . .	20,364,000	10,866,000
	<u>\$1,127,832,000</u>	<u>\$1,076,082,000</u>

Throughout these statements, United States currency is included at the rate of \$1.00 Canadian to the U.S. dollar. Sterling is included in the revenue statement at \$2.80 Canadian to the pound (unchanged from 1966), but in the statement of assets and liabilities is included at \$2.60 to the pound (\$2.80 used in 1966). As a result of the change in rate, the Canadian dollar equivalents of assets and liabilities in sterling were both reduced by approximately \$10,400,000. If current rates of exchange had been used in the statement of assets and liabilities at December 31, 1967, rather than the bookkeeping rates referred to, the surplus as shown would have been increased.

\*The health insurance contingency reserve previously included with policy reserves, the first item under liabilities, has been shown as a separate item at December 31, 1967.

## THE YEAR'S TRANSACTIONS

### We received

	<u>1 9 6 7</u>	<u>1 9 6 6</u>
Gross premiums for insurances and annuities . . . .	\$140,769,000	\$134,070,000
Less premium reductions (policy dividends) allotted .	19,998,000	19,128,000
Net premiums . . . . .	<u>\$120,771,000</u>	<u>\$114,942,000</u>
Interest, dividends and rents, after deducting \$3,737,000 in 1967 and \$3,610,000 in 1966 for expenses and taxes on investments . . . . .	60,896,000	57,320,000
Profits on sale of assets and recovery of amounts previously written off . . . . .	2,272,000	785,000
	<u>\$183,939,000</u>	<u>\$173,047,000</u>

### AUDITORS' REPORT TO THE POLICYHOLDERS

We have examined the statement of assets and liabilities of The Canada Life Assurance Company as at December 31, 1967 and the revenue statement and the statement of segregated annuity funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances; the amounts required to provide for payments guaranteed under insurance and annuity contracts

were determined and certified by the Company's Vice-President and Senior Actuary. Based on our examination and the certificate of the Vice-President and Senior Actuary, we report that in our opinion the accompanying statement of assets and liabilities and the related revenue statement and the statement of segregated annuity funds present fairly the financial position of the Company as at December 31, 1967 and the results of its operations for the year ended on that date.

Toronto, Canada,  
January 17, 1968.

CLARKSON, GORDON & CO.,  
*Chartered Accountants.*



# **We paid or set aside for future payment**

1 9 6 7

1 9 6 6

## To policyholders and beneficiaries:

Death benefits . . . . .	\$30,642,000		
Disability benefits . . . . .	10,124,000		
Matured endowments . . . . .	8,055,000		
Annuities . . . . .	12,960,000		
Cash surrender options . . . . .	<u>29,923,000</u>	\$ 91,704,000	\$ 87,495,000
Interest on amounts left on deposit with the Company and on short-term borrowings . . . . .		3,630,000	2,963,000
The increase in funds required for future payments guaranteed under insurance and annuity contracts .		47,647,000*	41,099,000
Transfer to trustees of British Isles Division staff pension fund . . . . .		—	2,876,000
Expenses of administration, sales and service (exclud- ing investment expenses) . . . . .	27,313,000		26,438,000
Taxes (excluding investment taxes) . . . . .	3,900,000		3,215,000
Amount written off assets . . . . .	2,896,000		3,411,000
Health insurance contingency reserve transferred from policy reserves . . . . .	1,208,000*		—
Addition to general contingency reserve . . . . .	1,500,000		1,500,000
Addition to unassigned surplus held as an additional protection for policyholders and beneficiaries . .	4,141,000		4,050,000
Balance at Dec. 31, 1967 . . . .	\$54,532,000		
Balance at Dec. 31, 1966 . . . .	50,391,000		
		<u>\$183,939,000</u>	<u>\$173,047,000</u>

# STATEMENT OF SEGREGATED ANNUITY FUNDS FOR 1967

	1967	1966
Balance of funds at January 1 . . . . .	\$10,866,000	\$ 3,235,000
Add:		
Amounts received from		
policyholders . . . . .	\$ 9,446,000	\$ 7,744,000
Investment income . . . . .	919,000	343,000
	<u>10,365,000</u>	<u>8,087,000</u>
Deduct:		
Amounts transferred to fixed		
benefit contracts . . . . .	213,000	204,000
Withdrawals . . . . .	16,000	5,000
Expenses and taxes . . . . .	71,000	26,000
Changes in market values of		
assets . . . . .	567,000	221,000
	<u>867,000</u>	<u>456,000</u>
Increase in funds during year . . . . .	9,498,000	7,631,000
Balance of funds at December 31 . . . . .	<u>\$20,364,000</u>	<u>\$10,866,000</u>
Represented by assets held at December 31 at market values:		
Bonds . . . . .	\$ 9,345,000	\$ 8,849,000
Stocks . . . . .	5,297,000	1,006,000
Mortgage loans . . . . .	5,214,000	849,000
Cash . . . . .	312,000	120,000
Interest and dividends accrued . . . . .	196,000	42,000
	<u>\$20,364,000</u>	<u>\$10,866,000</u>

The Company has been issuing individual variable accumulation contracts since 1962; the assets of the fund established for these contracts are invested entirely in common

stocks. Corporate pension fund variable contracts have been issued since 1964; these funds are invested in various types of assets as determined in consultation with the trustees of each fund.



*The*  
**CANADA LIFE**  

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*Assurance Company*



**AR51**



# **THE CANADIAN ECONOMY**

**SOME OBSERVATIONS BY**

**GRAHAM F. TOWERS**

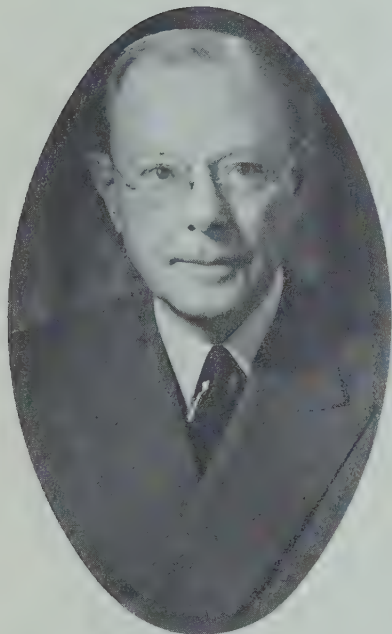
**CHAIRMAN OF THE BOARD**

**THE CANADA LIFE**

**ASSURANCE COMPANY**

**In An Address Given January 26th, 1967**





Policyholders of the Canada Life are indeed fortunate that they are represented on the Board of Directors by some of their fellow policyholders who have shown themselves to be most capable in business and financial affairs.

One of the most distinguished members of our family of policyholders is Mr. Graham F. Towers, the Chairman of the Board of Canada Life. He has served his fellow policyholders in that position for six years.

Mr. Towers became a Director of your Company in 1955 following twenty years of public service as the first Governor of the Bank of Canada. He had also been President of the Industrial Development Bank and Alternate Governor of the International Monetary Fund.

His comments about the economy during the course of his address at the 120th Annual Meeting were widely quoted. We thought that you would be interested in the text of his address.

**GRAHAM F. TOWERS**

C.M.G., LL.D., D.C.L.



# The Canadian Economy

"The final months of 1966 saw many questions raised about the state of business in North America. Some believed that the economy was 'over-heating' and inflation was the problem, while others foresaw a slowdown and worried about a recession. At year-end we appeared to be in a state of uneasy balance between these alternatives.

"A factor of obvious importance is the trend of defense expenditures in the United States during 1967. If these level off, it seems probable that there will be a reduction in the pressures on labour and materials which were so evident at times last year. In any event, this year business will have to face the legacy of increased costs inherited from 1966.

"So far as the year as a whole was concerned, 1966 will go down in history as one of Canada's most prosperous. Canadian Gross National Product measured on a per capita basis in real dollars appears to have risen by 4.7%. Since 1961 this measure of our standard of living is up almost 25%. Certainly this has been an

unparalleled period of expansion. Data for the United States show a similar trend; an increase of 3.9% this year and 21% for the period.

"From 1958 to 1965, the North American economy had an enviable record of price stability, particularly as compared with the principal Western European nations. In this respect, the record of the United States is slightly better than that of Canada, but this was to be expected in view of the devaluation of our dollar.

"During 1966 this record has been marred, with both consumer and wholesale price indices moving up sharply. A closer look at the component parts of these indices over the last two years shows 'food' prices rising, levelling briefly, then rising again. More seriously, it shows a persistent, albeit slow, rise in the prices of manufactured goods and a sharp increase in the cost of services. These are the prices that, unlike foods and raw materials, rarely come down once they have gone up. I think it obvious that an increase in our standard of living lifts the demand for



services and puts pressure on prices in this sector. This is the area that is labour intensive and where it is particularly difficult to increase productivity.

“The true causes of the inflation, and how serious it was in fact in late 1965 and in 1966, I leave to the professional economists. The fact is that an inflationary psychology developed in mid-year despite the steps taken by the Canadian government in the Spring budget, and the evidence in the United States that the economy was levelling out in the second quarter. The attitude of many segments of the public, and indeed of governments as well, seemed to reflect an opinion that further increases in prices and costs were inevitable. In Canada particularly, labour’s demands for higher wages consistently went far beyond the percentage rise in living costs or in productivity which had taken place in the preceding twelve months or which was likely to occur in the near future.

“Between 1961 and 1965, it had been possible to combine growth and reasonable price stability because substantial idle

capacity existed and a large measure of unemployment had to be absorbed. These conditions no longer exist. Now wage increases, unless offset by higher productivity, increase unit labour costs and thus become the basis for further increases in prices, decreases in profitability, or both. That this can develop into a vicious circle is obvious.

“We in Canada have already experienced some formidable wage increases, and from all appearances there are more to come. Organized labour does not like to have the finger pointed at it as ‘the’ cause of inflation and quite rightly so. Wages are only part of the circle, but at this point they have become a crucial factor.

“It is at a time like this that the power of organized labour to achieve substantial wage increases at the expense of other parts of the population is greatest. Yet one must assume that there exists a rough balance between the skills required, conditions of work and wages at any one time. When this balance is disturbed and distorted, frustrations and strife are produced

in many sectors of the population, particularly in those segments with a weaker bargaining position.

“Faced with difficulties of this kind, a number of countries have attempted to develop an incomes policy or to establish guide-lines for wages and prices. Except for occasional suggestions Canada has not been one of this group. The problem of maintaining reasonable price stability at high levels of employment is dealt with at length in the Third Annual Review of the Economic Council of Canada. The Council’s conclusion is that a formal incomes policy would not be an effective way of meeting the problem in Canada. They suggest that a number of other approaches are necessary to achieve the desired objectives. There are two features of the Council’s summary of conclusions in this field that seem to me to deserve special emphasis in the light of Canadian experience during 1966. They recommend that governments should take immediate steps to improve the discharge of their responsibilities as major employers and in-

creasingly large-scale direct participants in the process of collective bargaining. The object should be to develop sound criteria and principles and to avoid disturbing repercussions on the climate of collective bargaining in the private sector of the economy. Furthermore they point out that on earlier occasions the Council has called for responsible restraint in both wage demands and business pricing policies.

“If everyone, including government, is expected to exercise ‘responsible restraint’ there has to be some notion of what constitutes restraint. I do not believe that anyone but the Federal Government can give an effective lead to public opinion on this matter. Such action would not, of course, obviate the necessity for the other more fundamental approaches recommended by the Council. But as many of these require major changes in both public and private attitudes and understanding, they are unlikely to be implemented for a considerable time. In the interval, I do not think that we have anything to lose by trying to develop a concept of sensible economic

behaviour by the use of 'guide-lines'. I hesitated to use the word 'guide-lines' because it has fallen into some disrepute. However, I could think of no other brief description of a means of indicating appropriate policy going beyond pious generalizations. If this approach is dismissed as impracticable, then the same must be said of the commitment of Government to maintain high employment. There has to be a degree of restraint to avoid the situation in which the excesses of an inflationary boom give rise to the painful readjustments of a recession with accompanying unemployment.

"Obviously if guide-lines are to serve any practical purpose they have to be observed by governments as well as by the private sector of the economy. In addition to their actions in the wage field, the fiscal policies of governments, their spending and taxation programmes have an extremely powerful influence on the stability and economic well-being of the country. I would be inclined to apologize for so trite an observation were it not for the fact

that sharply rising costs of living seem to be regarded as a phenomenon for which governments are not responsible, and for which the reasons have to be sought by governmental committees of enquiry. We need a greater degree of economic maturity if the desirable goals of high employment and price stability are to be achieved.

"One of the weapons available to the Government for moderating a boom was in fact used during 1966. I refer to monetary policy. Economic growth since 1961 has been stimulated in no small part by a continuous and substantial expansion in the volume of money and credit. Obviously the money tap cannot suddenly be turned off without creating chaotic conditions. However, the rapid pace of earlier years had to be moderated in the light of obviously inflationary pressures and shortages of various kinds. The growing demands for capital to build new plants and equipment, and to carry larger inventories, impinged on a money supply, which grew by 7.3% in the year which ended November 30th last, as compared

with some 6.2<sup>0</sup>% and 12<sup>0</sup>% respectively in the calendar years 1964 and 1965. Demand for credit outran the supply and pushed interest rates to levels not seen since the 1920s. The money markets experienced a stringency and dislocation unknown to the present generation, as a virtual scramble for funds developed.

"I find myself in agreement with the Managing Director of the International Monetary Fund, Mr. Pierre-Paul Schweitzer, in his address to the annual meeting of the Fund last September. He said, amongst other things: 'The potential danger is that further squeezes on liquidity, and further rises in interest rates, could have an adverse impact on particular categories of financial institutions or borrowers, with consequent repercussions on confidence and on real economic activity. These considerations regarding interest rate developments point clearly to the need for better fiscal policies in the industrial countries. Some improvement — perhaps not inconsiderable — could be realized through a greater willingness on the

part of national authorities to face fiscal problems promptly. . . . If fiscal policies were better developed and could be adjusted more readily to changing circumstances, less reliance would need to be placed on monetary policies to influence domestic demands. . . .

"The efforts of some industrial countries to overcome their international deficits and of others to combat domestic inflation have naturally had worldwide repercussions. One by-product of the relative scarcity of loanable funds and high rates of interest is to put weaker borrowers in a precarious and sometimes untenable position. Such a situation usually brings to light a deterioration in the quality of credit, to which I referred at our meeting last year. Bankruptcies are bound to occur here and there around the world in cases of sufficient magnitude to attract general attention. It is important that these developments should not have a snowballing effect by producing a serious lack of confidence, such as occurred in 1930-1931. As Mr. Schweitzer pointed out, this risk will



exist if too much of the burden of resisting inflation is placed on monetary policy. I believe that the pressures which developed in money and capital markets at times during 1966 were as great as could be tolerated without serious damage to the world economy.

"The concern occasioned by important business casualties cannot be confined within the boundaries of the country in which they occur. There are inevitably international ramifications. To my mind, that raises the question of international liquidity. It is true that leading authorities, such as, for example, the countries participating in the Group of Ten, insist that there is no general shortage of international liquidity. In a sense this may be true, but if a fear exists that a shortage may develop in the foreseeable future, countries are tempted to seek for increased reserves or to resist substantial reductions in existing reserves. I suspect, perhaps with insufficient evidence and certainly without possibility of proof, that the hoarding mentality is not limited to those who for a number of years

have taken in to private ownership a high proportion of all the gold coming on to the markets of the free world.

"At their meeting last July, the Group of Ten agreed that at some time in the future existing types of international reserves may have to be supplemented by the deliberate creation of additional reserve assets. This must be considered progress but it is painfully slow.

"Looking towards the next five years I assume there will be no substantial change in our economic objectives. Reasonably full employment will remain the prime goal. But we will be faced with a slower growth potential starting from this level, limited by the increases in our labour force and productivity. In this respect, compared to other nations, our outlook is favourable. North America is the only major industrial area which over the next five years will have a rapidly rising labour force and possesses the capital resources to increase further the productivity of labour.

"In my remarks today I have expressed concern — whether rightly or wrongly only



time can tell — with some of the difficulties facing Canada and the leading countries of the western world. It is well to remind oneself, however, that the main problems are intimately connected with prosperity and high employment — problems of combatting inflation and maintaining a sufficient degree of stability so that further sound progress will not be impeded. This is a very different situation from that which confronts the peoples of the so-called underdeveloped countries,

comprising a large majority of the world's population. In these great areas, increases in grossly inadequate standards of living have been at the best slow, and in some cases non-existent. Both humanitarian considerations and intelligent self-interest make it incumbent on the relatively wealthy nations of the world so to conduct their affairs that they can help the less fortunate ones to progress, rather than compound the difficulties of the poor by the excesses of the rich."

